MILLER CENTER
UNIVERSITY of VIRGINIA

MILSTEIN SYMPOSIUM
IDEAS FOR A NEW AMERICAN CENTURY

Can Startups Save the American Dream?

THE MILLER CENTER • UNIVERSITY OF VIRGINIA

Commission Co-Chairs
Steve Case, Chairman and CEO, Revolution LLC
Carly Fiorina, former Chairman and CEO, Hewlett-Packard

IN PARTNERSHIP WITH batten institute
DARDEN SCHOOL OF BUSINESS

About the Milstein Symposium

The Miller Center launched the Milstein Symposium: Ideas for a New American Century in September 2013. This multi-year initiative convenes distinguished stakeholders and eminent scholars to define and advance innovative, nonpartisan, action-oriented ideas, grounded in history, to help rebuild the American Dream. Funding for this initiative was provided by philanthropist, and business and civic leader Howard P. Milstein.

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JANUARY 2015
MILSTEIN COMMISSION ON ENTREPRENEURSHIP AND MIDDLE-CLASS JOBS

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The Milstein Commission on Entrepreneurship and Middle-Class Jobs

Clockwise from top left: Michael Lenox, Aaron Chatterji, James Douglas, Jennifer Medbery, Lenny Mendonca, Ross Baird, Warren Thompson, Brian Meece, Sean Carr, Maya MacGuineas, Carly Fiorina, Gerald L. Baliles, Steve Case, and Karen Mills

Not pictured: Amy Cosper

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Letter from William J. Antholis

Executive Director, Miller Center, University of Virginia

The American Dream has been an elusive aspiration for many citizens. That has been the case for too many Americans for at least the last four decades. As early as 1975, Bruce Springsteen, the nation's iconic working-class troubadour, sang about the "runaway American Dream." After the enormous prosperity boom of post-World War II America, our middle class has faced persistently strong headwinds in its efforts to advance. Not surprisingly, our poorest citizens have struggled to rise out of poverty, and join the middle class.

In the last decade, the forces against social mobility have only strengthened. Fiscal constraints, technological innovation, global competition, and the rising costs of higher education, among other challenges, all seem to have limited the ability of many Americans to advance their standing, and to hand off a better life to their children. And our governing institutions have been gripped by political polarization, preventing action on possible solutions.

What must we do to ensure that the American Dream remains available to all? That question, so vital to the future of our nation, serves as the foundation for the Miller Center's **Milstein Symposium: Ideas for a New American Century**.

This report marks the second commission of this five-year initiative, whose purpose is to develop and advance innovative, yet actionable, ideas to rebuild the American Dream. Co-chaired by two pre-eminent leaders of industry – Steve Case and Carly Fiorina – this commission assembled 12 thought leaders to explore how entrepreneurship can be used to create and sustain middle-class jobs. We also collaborated with the Batten Institute for Entrepreneurship and Innovation at the University of Virginia's Darden School of Business on this important project. The project was conceived and driven by my predecessor, Governor Gerald Baliles, who deserves considerable thanks for his enormous contribution.

Innovation and self-sufficiency are cornerstones of our national identity. We must continue to support this beating heart of the nation's economy if we are to thrive. In approaching this topic, the group assessed the entrepreneurial mindset and ways to empower the next generation to think in innovative terms. Improving access to financial capital was also explored. Finally, we looked at best practices in streamlining government while helping business owners to navigate the regulatory environment.

Underpinning the process was the notion that any recommendation must be bipartisan, actionable, and most importantly, advance the middle class in meaningful ways. To that end, the group proposed five fresh ideas to improve the entrepreneurial environment:

Unlocking access to capital to boost community lending; *expanding program-related investments* to push impact investing into the mainstream; *building a regulatory roadmap* that aids business owners in navigating regulation; *a K-12 entrepreneurship competition* that exposes students to entrepreneurial thinking at an early age; and *ecosystems-in-a-box* that civic leaders can use to take best practices utilized elsewhere and tailor them to best serve their own local economies.

When asked about the secret to Teddy Roosevelt's success, Henry Adams responded that our 26th president was "pure act." Indeed, fresh thinking is nothing without follow-through. Bookshelves are lined with good ideas and platitudes. Our goal in drafting this report is to inspire the reader to action. We aim to rebuild the American Dream. And it is our wholehearted belief that with the ideas proposed herein, we will take major steps towards bringing us closer to our objective.

Letter from Howard P. Milstein

Chairman and CEO, New York Private Bank & Trust
Chairman, Milstein Properties

We are pleased to present this second commission report of the **Milstein Symposium: Ideas for a New American Century,** with a focus on entrepreneurship and middle-class jobs.

There are few better representations of the American ideal than the entrepreneurial spirit. From the Wright Brothers and Thomas Edison to Bill Gates and Steve Jobs, the spirit of innovation and entrepreneurial achievement is embedded in our national DNA. Moreover, it is well documented that small, entrepreneurial enterprises are responsible for the vast majority of U.S. job creation, particularly middle-class jobs so vital to a vibrant economy. Yet, in recent years, there has been considerable concern that our nation's entrepreneurial spirit is flagging, that we are giving up our lead to other nations, and that this is causing deficiencies in middle-class job creation just when we need it most.

Such concerns are at the heart of the Milstein Symposium. The goal is to find practical, nonpartisan solutions to pressing economic issues facing our nation, and especially the middle class. Our first commission report, issued earlier this year, considered the future of small- and medium-sized manufacturing enterprises (SMEs), offering six ideas to revitalize our nation's manufacturing engine. In addition to entrepreneurship, future symposium reports will look at other vital areas, including infrastructure, education, and aging. The thread that binds all of this work is an examination of the steps our nation needs to take to ensure the continued vitality of the American Dream in the 21st century.

In the pages of this report, our 12-member commission, ably led by renowned entrepreneurs Steve Case and Carly Fiorina, present five innovative ideas that we believe will help ensure that entrepreneurship remains at the foundation of American economic prosperity. These include: ensuring that small, entrepreneurial enterprises find the capital they need; changing regulation to facilitate entrepreneurial growth, rather than stifle it; creating programs to educate a new generation of entrepreneurs who will innovate and create jobs as this new century moves forward; and developing tools to help civic leaders foster the entrepreneurial spirit in their local communities.

These ideas are innovative, nonpartisan and—most importantly—actionable. We look forward to seeing these ideas put into action, as we move into a new era of entrepreneurship and job creation that will ensure the American Dream for generations to come.

The survival of the American Dream for future generations has special resonance for me and my family. I stand squarely on the shoulders of two generations of entrepreneurs. My grandfather, Morris Milstein, came to this country in the early 1900s, with little to his name but an outsized work ethic and even bigger dreams. He founded the Circle Flooring Company, which became one of the largest flooring companies in the nation. My father, Paul Milstein, moved into areas such as real estate, banking, and industry, innovating and creating jobs and opportunity in every enterprise he touched. More recently, with my son Michael we are developing Grand Central Tech, an innovative start-up incubator we founded in Midtown Manhattan. As part of that effort, we are working with a new generation of entrepreneurs who are making their own dreams a reality.

The recommendations in this report can help stimulate innovation and entrepreneurship across all sectors of the economy. We look forward to sharing more expert consensus ideas from future commissions of the Milstein Symposium.

Letter from the Co-Chairs

STEVE CASE: *Chairman and CEO, Revolution LLC; Co-Founder, America Online*
CARLY FIORINA: *President, Carly Fiorina Enterprises; former Chairman and CEO, Hewlett-Packard*

We have been proud to serve as co-chairs of the Miller Center's Milstein Commission on Entrepreneurship and Middle-Class Jobs. Together, the members of this commission represent the key elements of a vibrant startup ecosystem—entrepreneurs, policymakers, scholars, journalists, advocates, investors, thought leaders, and industry captains. While our backgrounds are varied, we came together in the wake of the worst recession in generations with a common purpose: to advance America's middle class through entrepreneurship.


Steve Case

America has long defined itself as a nation of innovators and entrepreneurs. It is a place where people dream big about owning their own business; a place where the American Dream should always be within reach. And yet, for the last few decades our middle class has been challenged, and the nation has suffered from a startup slowdown. Though today entrepreneurs have access to a greater diversity of resources than in the past, real barriers remain and entry remains uncertain. How can we reverse this trend and generate new jobs for the middle class?


Carly Fiorina

In this report, we advance five ideas aimed at encouraging greater entrepreneurial activity, and expanding access for more middle-class business owners. The ideas are innovative, nonpartisan, and action-oriented. They are grounded in history and intended to help rebuild the American Dream. More specifically, they focus on expanding access to capital, streamlining the cumbersome regulatory process, enhancing educational opportunities and student exposure to entrepreneurship, and encouraging the creation of entrepreneurial ecosystems. Together, these are vital ingredients to the success of early-stage ventures.

This commission, with its diversity across talent and sectors of the American economy, and its commitment to the prosperity of the American people, believes in the promise new businesses hold for the nation's continued economic recovery. It is our hope that the recommendations contained in this report move decision-makers to action and bring us closer to our goal of greater middle-class security.

We join our fellow commission members in unanimously approving this report.

Steve Case, Co-Chair
Chairman and CEO, Revolution LLC; Co-Founder, America Online

Carly Fiorina, Co-Chair
President, Carly Fiorina Enterprises; former Chairman and CEO, Hewlett-Packard

Ross Baird, *Executive Director, Village Capital*

Aaron Chatterji, *Associate Professor, Fuqua School of Business, Duke University*

Amy Cosper, *Vice President and Editor-in-Chief,* Entrepreneur

James Douglas, *former Governor of Vermont*

Maya MacGuineas, *President, Committee for a Responsible Federal Budget*

Jen Medbery, *Founder & CEO, Kickboard*

Brian Meece, *CEO, RocketHub*

Lenny Mendonca, *Entrepreneur and Director Emeritus, McKinsey & Company*

Karen Mills, *Senior Fellow, Harvard Business School; former SBA Administrator*

Warren Thompson, *President and Chairman, Thompson Hospitality Corporation*

Executive Summary

The identity of America is intrinsically entrepreneurial. It is an indelible part of our collective history—sown by the Founders, popularized by Horatio Alger, embodied by Henry Ford. We have the right to pursue self-defined goals however we choose to define them. This is the American Dream on offer to everyone regardless of circumstance: With enough hard work anyone can use entrepreneurship to pave their own way to prosperity and strengthen their communities by creating jobs and growing their local economy.

The popular perception of entrepreneurship has shifted over time. Today, we often associate it with Silicon Valley, Austin, and other hubs of high-tech innovation. These regions have been the crucible for revolutionary technologies. They have incubated many of the nation's fastest-growing firms—or "gazelles"—which have been a boon to American workers, accounting for approximately 40% of new jobs each year while comprising just 1% of businesses.

In Louisville, for instance, a vibrant startup community has developed in the heart of the Ohio Valley by harnessing the power of agriculture, clean energy technology, and other sectors of regional strength. Rather than seeking to transcribe northern California onto northern Kentucky, it is taking a bottom-up approach that leverages its own unique resources. Today, the city boasts five accelerators, a vibrant angel investor community, and partnerships with large companies to support startup enterprises like the GE FirstBuild center, which brings together micro-manufacturing and the maker movement.

Louisville provides an important lesson: Vibrant entrepreneurial communities can be built anywhere. This lesson is consequential to the health of our nation. Startups are a bellwether for the entire economy. Roughly half of private sector employees work in small businesses, and 65% of new jobs created since 1995 have come from small enterprises.

Moreover, entrepreneurship has long provided a pathway to the middle class for people on the lower end of the income spectrum, or immigrants looking to attain the American

Dream. In a 2009 survey by the Kauffman Foundation, 72% of entrepreneurs came from self-described "middle-class" backgrounds, and 22% reported being from "upper-lower-class" families headed by blue-collar workers. And a 2012 survey by Small Business Majority found that of the 54% of small business owners whose revenues are reported as personal income, just 5% claimed incomes of over $250,000.

In short, entrepreneurship is a widely dispersed, crucial element of the U.S. economy. It comprises a rich tapestry of sizes, industries, and aspirations. It includes not only gazelles, but also owners of salons, filling stations, brewpubs, and web design firms. They are all part of the same web of economic growth—one that is vital to strengthening the middle class.

It is for this reason that we find the recent "startup slowdown" so troubling. The phenomenon has existed for over a decade, and was only exacerbated by the recent recession. Between 2007 and 2012, small businesses accounted for a staggering 60% of U.S. net job loss. Job creation among startups was lower in 2009 than at any time since 1980. Further, according to the Kauffman Foundation, this may not change. Firms founded in 2009 are projected to create one million fewer jobs in their first five to ten years relative to historical averages. For an economy predicated on a strong middle class, these are ominous figures.

To be sure, signs of turnaround have surfaced. UP America and other initiatives have nurtured the nation's latent entrepreneurial spirit into vibrant startup communities across the country. Technology has given startups new and innovative ways to access capital, connect with mentors, and bring products to market. And programs like *Shark Tank*, *Flip This House*, and other paeans to entrepreneurship have captured the popular imagination.

Yet, while these are encouraging signs, significant barriers still remain. Regulation is too complex, too costly, and too burdensome. The flow of startup capital is concentrated in a small network of high-growth ventures. Our educational system has failed to inspire entrepreneurial thinking and introduce entrepreneurship as a viable career path for students. Our immigration policy continues to keep us at a comparative disadvantage in the global battle for talent. And our civic leaders, while well intentioned, often do not possess the tools to kindle their own entrepreneurial communities.

No one report can solve all of the challenges facing America's current and aspiring entrepreneurs. But there are practical, meaningful measures that can generate consensus and advance America's startup community in service of the middle class. To that end, we propose the following five ideas to restart America's entrepreneurial engine, and forge new pathways to create and sustain middle-class jobs:

Unlock Capital for Main Street Entrepreneurs

Main Street entrepreneurs often have difficulty accessing the capital necessary to launch, sustain, or scale their operations, particularly as the recent recession forced many community banks into consolidation or collapse. By unlocking Community Reinvestment Act and increasing Community Development Financial Institution investments, Main Street businesses will have access to a critical source of capital.

Accelerate Impact Investing through PRIs

Impact investing supports new and innovative models for confronting the great social challenges of our time. However, with mainstream investors yet to participate, it is essential to utilize all available sources of capital. By revising regulations governing program-related investments (PRIs), and expanding their awareness among foundations and entrepreneurs, we may accelerate impact investing and push it from the periphery to the mainstream.

Build a Regulatory Roadmap

Today's regulatory environment imposes costly burdens on existing business and serves as a barrier to entry for aspiring entrepreneurs. Our proposed "Roadmap" will help new and emerging businesses navigate the regulatory landscape. In addition, it will put pressure on local, state, and federal regulators to offer better customer service to businesses, and encourage civic leaders to compete as top places to do business.

Empower the Next Generation of Entrepreneurial Leaders

A vibrant entrepreneurial society is predicated on an awareness of the opportunities entrepreneurship provides, the encouragement to pursue them, and the skills to launch and grow one's own venture. By creating a national entrepreneurial competition for students at the K-12 level, students will be exposed to entrepreneurial thinking and opportunities before they begin their career path.

Equip Civic Leaders to Build Entrepreneurial Ecosystems

Entrepreneurial clusters have the power to transform communities and boost local and regional economies. However, civic leaders often do not have the tools or knowledge necessary to cultivate a productive entrepreneurial system. Our plug-and-play "Ecosystem-in-a-Box" concept combines the latest research with the unique qualities of local communities to provide playbooks for civic leaders to build their own vibrant entrepreneurial clusters.

In developing these recommendations, we were guided by three fundamental principles. First, our focus was limited to what we deemed to be *remediable problems.* Second, the recommendations had to have a *viable path to implementation*. And third, the recommendations had to *add value to the marketplace of ideas*. This action-oriented approach distinguishes this report from the vast majority of policy reports whose recommendations, while sound, are all-too-often victims of the political realities today on Capitol Hill. We chart a different course; one based on sustained, thoughtful deliberation and built on consensus among all the necessary stakeholders.

The future of American entrepreneurship will determine the future of America's middle class. It is time to turn ideas to action. We commend this report to business and industry leaders, nonprofits, advocates, and policymakers at the local, state, and federal level. We urge them to engage in this dialogue so critical to our collective future.

IDEA #1:

Unlock Capital for Main Street Entrepreneurs

Challenge

Access to capital is a persistent challenge for entrepreneurs and small business owners who want to scale their concepts or grow their existing operations. A 2012 study by the National Federation of Independent Businesses found that more than 85% of small businesses used either a large or community bank as their primary lender. Yet, the onset of the global credit crunch in 2008 caused an already difficult lending environment to dry up almost entirely as small businesses were perceived as less creditworthy and banks became more risk averse. According to a 2012 survey conducted by the National Small Business Association, 47% of small businesses were unable to find a lender in the previous four years. Of those, 53% said it hindered growth or expansion, and 32% said it led to a reduction in workers.

While bank lending as a whole has returned to pre-2008 levels, lending for startups and small businesses has yet to recover. Community banks—historically the primary lenders for Main Street companies—were hit severely during the Great Recession. Today, there are fewer than 7,000 such institutions in the U.S., a decline of more than half since the mid-1980s. And those that remain have largely shifted their focus to cheaper, safer, and more profitable loans for big businesses. The resultant data are troubling: small business loans comprised just 29% of total bank loans in 2012, compared with 51% in 1995.

Other capital sources have been on the ascent. Angel investing has continued its upward trend of recent years; venture capital has bounced back after a slow 2013; the crowdfunding market is projected to grow to between $90 billion and $96 billion by 2025; and peer-to-peer lending has quickly transitioned from a trendy option to a legitimate investment vehicle. However, much of these funds are typically invested in: (a) companies in already-mature entrepreneurial ecosystems (e.g., Silicon Valley, Boston) and (b) consumer technology companies that, by and large, do not create significant employment. Meanwhile, Main Street entrepreneurs have struggled.

The federal government has taken some steps to increase the flow of lending to Main Street firms. The Small Business Jobs Act of 2010 established two new programs at Treasury: the Small Business Lending Fund (SBLF), which provides capital to qualified community banks and community development loan funds, and the State Small Business Credit Initiative (SSBCI), which provides lending to and investments in small businesses and small manufacturers that are creditworthy but are not getting the loans they need to expand and create jobs. The SBA's Small Loan Advantage and Community Advantage programs expanded small-dollar loans and loans to underserved areas. And the JOBS Act of 2012 lightened restrictions on investing in startups and small businesses. In addition, new technologies are in the process of disrupting the small business lending market, with the potential to expand the availability and efficiency of term loans.

Nonetheless, access to capital remains a challenge on Main Street. These businesses are the lifeblood of a thriving community, and the pathway to a vibrant middle class. Therefore, we must build on existing efforts and expand the pool of capital available to Main Street entrepreneurs.

Lessons from **History**

The Community Reinvestment Act of 1977 (CRA)

On October 12, 1977, President Jimmy Carter signed the Community Reinvestment Act of 1977 into law. The bill's original language stated that "regulated financial institutions have continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered." To accomplish this overarching goal, the original CRA established regulations that oversaw lending and investments in low- and middle-income areas. Institutions found to be falling short in meeting a series of criteria designed to support these communities faced penalties such as denied expansion or a restriction of aggregate capital activity. With time, numerous clarifications have been made to simplify implementation of CRA. However, the fundamental notion that investing in underserved communities is not only fair, but also critical to building a growing economy, remains intact. In 2013, the Federal Financial Institutions Examination Council reported that community development lending surpassed $65 billion.

CROWDFUNDING FOR EVERYONE

Crowdfunding is a method for soliciting financial support from (potentially) large numbers of people through the Internet. Using an online portal or third-party platform (e.g., RocketHub, Kickstarter, Indiegogo) to advertise a particular funding need, individuals, groups of people, or organizations can request money directly or indirectly from other individuals or institutions. Often these solicitations take the form of donations in exchange for rewards or "perks," although many online crowdfunding portals also facilitate funding in the form of uncollateralized debt (e.g., Prosper) or partial equity ownership (e.g., Symbid). Globally there are an estimated 800 crowdfunding platforms, and the number is expected to continue to grow significantly through the decade, particularly following the implementation of the crowdfunding provisions contained in the Jumpstart Our Business Startups (JOBS) Act, signed into law by President Obama on April 5, 2012. Supporters in the public, private, and nonprofit sectors should focus on developing "Crowdfunding for Everyone" programs (i.e., guides, sites, workshops, etc.) to educate potential entrepreneurs about how crowdfunding works both now and once the new SEC rules are implemented. Collectively, these tools could have a transformative impact on startups and help level the playing field for anyone with a viable idea.

Idea

To help unlock new sources of capital for Main Street entrepreneurs, we recommend expanding community-based lending and investments to fill the market gaps left by the decline of community banks. Specifically, we propose improvements to the Community Reinvestment Act (CRA) and the Community Development Financial Institutions Fund (CDFI Fund).

The CRA was passed in 1977 to encourage regulated financial institutions to make capital available for certain "qualified investments" within their communities, particularly for the underserved in low- and moderate-income areas. The Act has been clarified numerous times since its original passage to keep up with the rapidly changing financial landscape. In 2010, a set of proposed revisions to CRA modified the term "community development" to have a more expansive definition. Nonetheless, many investors have difficulty discerning what is CRA-eligible.

The Department of the Treasury's CDFI Fund supports CDFIs to provide financing and financial services to low-income and underserved communities. The CDFI Fund administers several annual programs that provide grants, loans, tax credits, and bond guarantees to support lending and investment in economically distressed areas. The flagship program—the CDFI Program—provides financial and technical assistance awards to build the organizational and financial capacity of CDFIs, which leads to improved access to financial products and services, increased job creation through the funding of small businesses and community development projects, and other impacts that benefit the community. To be eligible for CDFI Program award dollars, an institution must be certified as a CDFI.

On paper, the eligibility requirements for CRA and CDFI Program awards allow a large universe of ventures to qualify for this pool of capital. Banks that engage in CRA-eligible activities and certified CDFIs can seed direct investments in startups and provide working capital to operating small businesses in communities throughout the U.S., leading to growth in middle-class jobs. To maximize the deployment and impact of these funds, we recommend the following three actions:

1. **The Federal Reserve should institute a more uniform clearance process** to determine which investments are CRA-eligible. Investors often comment that the current system is fragmented and that interpretation of eligibility can vary from regulator to regulator and from individual examiner to examiner. A more uniform qualification process would introduce much-needed predictability into the system. There is also fundamental risk aversion built into CRA funds, so investments tend to be weighted toward short-term notes and other investments that have received past compliance, such as affordable housing. This is more a function of the fact that the exam cycles are every three years, so the short-term bias is a function of needing to get credit every three years; ten-year private equity funds do not help on that basis. This severely limits the potential of the available capital and falls short of the spirit of community development for which both programs were created. A more uniform clearance process, coupled with the two recommendations below, would attract banks and investors looking to increase small business lending and make equity investments.
2. **The definition of what qualifies within an "assessment area" should be reconsidered** so that capital can be deployed to places within a region or even nationally of demonstrably high impact rather constrained into geographically defined areas that may not have the greatest needs. For example, investments into an Impact Investment SBIC that is focused on education companies that seek to close the educational achievement gap might deliver more impact per dollar than the marginal affordable housing project in a bank's assessment area. We emphasize that this would require strict measurement of impact (see #3 below) and regulatory oversight to maintain—and even amplify—the spirit of our community development programs.
3. **Formal metrics should be used to measure the impact** of CRA and CDFI Fund investments to ensure that these dollars are seeking to deliver the greatest social return

on investment. There is currently too much focus on the total number of qualified dollars (inputs) that have been deployed rather than their job-creating impact. We recommend using the Global Impact Investment Network's Impact Reporting and Investment Standards (IRIS), which has already been adopted by the SBA as the preferred measurement for their Impact Investment program, as one way of ensuring more consistent performance metrics for CRA or CDFI Fund programs' investments.

Impact metrics could have a transformative effect on the power of these investment dollars. For instance, the CDFI Bond Guarantee Program, created by the Small Business Jobs Act of 2010, provides up to $1 billion annually in bonds guaranteed by the full faith and credit of the U.S. government for approved community or economic development activities, including job creation and retention programs. If deployment of these funds can be shown to generate significant economic benefits, and not, as some economists argue, simply produce economic gains in the target area at the expense of an adjacent locale, it would help CDFIs looking to increase their lending and investors seeking impact in underserved communities make a compelling case for additional investment.

Impact

- **Entrepreneurs and Small Businesses** Since the recession, banks have been more hesitant to extend loans to startups and small businesses. At the same time, they are eager to earn CRA credit. By offering clearer eligibility guidelines, banks will be given the appropriate incentive to provide risk capital to startups and operating businesses in their communities.
- **Investors** A uniform clearance process will also attract investors to create funds using CRA and CDFI Fund capital. These funds will be used to make equity investments in startups and small businesses, including many deemed too risky for traditional lending.
- **Social Impact** CRA and CDFI Fund dollars are intended for investment in enterprises that benefit the community in which they are dispersed. For example, in January 2014, the Tory Burch Foundation and Bank of America partnered on an initiative to support female entrepreneurs with affordable, early-stage capital. These loans were administered through CDFIs. Therefore, fully leveraging CRA and CDFI Fund dollars for these types of ventures will increase our nation's investment in social enterprises. Additionally, measuring the success of these ventures and reconsidering the assessment area requirements will allow investments to be directed toward high-impact enterprises.

Catalysts

- **Federal Regulators** The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation govern CRA regulations. The Internal Revenue Service governs CDFI regulations. A 15-member Community Development Advisory Board provides policy advice to the director of the CDFI Fund. The regulatory changes proposed will require support and action by these governing bodies.
- **Recipients of CRA Investment Capital and CDFI Fund Program Awards** Many financial institutions and investors have leveraged CRA and CDFI Fund capital with extraordinary results. They are well positioned to provide guidance on existing weaknesses in the current regulatory agenda and to expand awareness of this pool of capital.
- **Community Development Investors and Advocates** In concert with CRA and CDFI Fund Program recipients, community development advocates must engage policymakers and other stakeholders on the benefits of Main Street entrepreneurship to America's economic growth and the development of thriving communities.

IDEA #2:

Accelerate Impact Investing through PRIs

Challenge

"Impact investing" describes an approach to capitalism in which enterprises seek positive financial returns as well as a measurable social/environmental impact. The concept has achieved tremendous growth in recent years. The Global Impact Investing Network, an industry association, estimated that $17 billion was deployed in impact investing worldwide in the last two years. Projected trends suggest that the trajectory can continue to surge upward. For instance, a 2013 report by the World Economic Forum estimated that Baby Boomers will transfer some $41 trillion in wealth to their heirs over the next 40 years. And according to a survey by Deloitte, the Millennial Generation ranked "improve society" as the number-one primary purpose of business.

While impact investing is commonly associated with for-profits or nonprofits focused on serving those at the base of the economic pyramid in the U.S. and around the world, many engaged stakeholders in impact investment funding are dedicated to advancing the current or aspiring middle class. And innovations in health care, infrastructure, energy, and education, for example, often serve to reduce the cost of key expenditure categories for middle-class households. Further, social enterprises—which can be for-profit or nonprofit—*create middle-class jobs*. The nonprofit sector alone—an area of tremendous growth in impact investing through innovations such as "pay-for-success" social impact bonds—employs roughly one in ten Americans, making it the third-largest labor force in the country, behind trade and manufacturing.

Nonprofits appear to be more resilient than the for-profit sector as well. A 2012 study by Johns Hopkins University's Center for Civil Society Studies found that between 2000 and 2010, nonprofit jobs had an annual growth rate of 2.1% compared to a 0.6% decline in the for-profit sector. Between 2007 and 2009, nonprofit jobs grew an average of 1.9%

annually, while for-profit businesses lost 3.7% of jobs each year. The most recent data from the Bureau of Labor Statistics (BLS) found that median annual income for nonprofit employees was $38,334, which places it on the low end of the middle-class wage spectrum. As such, America's middle class stands to gain from an expansion in the way society thinks about using capital to promote social good.

For impact investing to become truly transformative, widespread adoption from mainstream investors (i.e., pension and insurance funds) is essential. But this kind of adoption will take years. In the near future, though, we see several highly effective pools of existing capital that can be optimally utilized to drive economic growth and social impact. This section focuses on expanding and clarifying the use of one of those pools: program-related investments (PRIs).

Created with the Tax Reform Act in 1969, PRIs are financial tools other than grants that foundations can use to provide organizations with working capital. They can be direct loans, loan guarantees to help organizations secure a commercial bank loan, or equity investments in commercial ventures that share the foundation's charitable goals. To qualify, investments must "significantly advance the foundation's charitable purpose," financial gain cannot be a key motivator, and the investment cannot be used to engage in political activity. While PRIs seem like a concept that could provide significant risk capital to entrepreneurs

Lessons from **History**

The Ford Foundation and a Legacy of Positive Social Impact

The Ford Foundation is a pioneer in the world of program-related investments (PRIs). PRIs provide loans, loan guarantees, or equity investments to enterprises in support of a foundation's charitable goals. During the late 1960s, the foundation received a grant request from an organization looking to provide job training to minority youths through rehabilitation of a local tenement building. Realizing that the grant would result in revenue for the building's owners, the foundation began considering the notion of structuring the grant as a loan. With a legal definition of PRIs officially established in the Tax Reform Act of 1969, the organization moved forward and set aside $10 million for future PRIs aimed at "high-priority foundation programs." Chiefly, this included minority business development, open housing, production of low-income housing, and environmental preservation. Over the years that figure has steadily increased, as has the diversity of the foundation's portfolio. As of December 31, 2013, the Ford Foundation held over $192 million in PRIs.

STUDENT-LED IMPACT INVESTING IN UTAH

In 2010, business leaders James Lee Sorensen and Geoff Wooley formed a partnership with the University of Utah's Eccles School of Business and Brigham Young University's Ballard Center for Economic Self Reliance to create what was originally known as the University Impact Fund. Now known as the Sorenson Global Impact Investing Center, its mission is to give students hands-on experience and a greater understanding of impact investing. Through the Sorenson Center, students assist practicing investors, social entrepreneurs, investment firms, nonprofits, and foundations in locating and supporting scalable social enterprises with business models that make a direct impact on social or environmental issues. The fund is an affiliate of another notable model for student-led investing: the University Venture Fund (UVF), which began at the University of Utah in 2000. The fund, which was launched with the help of a $500,000 investment by Sorenson (an alumnus of the University) in 2001, closed on $5 million in investments by 2004. Just two years later, it had become the largest student-run fund in the country, managing a remarkable $18.2 million in assets. To date, UVF has made 19 investments, including web analytics business Omniture, which made an initial public offering in 2007. UVF has also served more than 200 students through its program to train the next generation of investment and entrepreneurial leaders.

in under-capitalized areas, less than 1% of foundations in the U.S. make such investments, and those who do rarely invest equity (the most common form of capital for startup entrepreneurs).

The opacity of existing regulations has prevented this investment option from reaching its full potential. Most foundations do not understand PRIs and are worried that certain investments might jeopardize their tax-exempt status. Further, gaining that certainty in the form of a Private Letter Ruling by the Internal Revenue Service (IRS) can be too costly and too time-consuming, especially for smaller foundations. The current IRS "user fee" for ruling requests is $19,000, with attorney costs to process the request often causing that number to double or triple. In addition, rulings can take between six months and a year to process.

In April 2012, the IRS issued a new set of proposed regulations to update and clarify the use of PRIs, citing a range of examples that were acceptable. The regulations significantly expanded the interest in PRIs, but many foundations still view these investments as too risky. Startups concomitantly look for capital elsewhere. As a result, impactful capital remains underutilized.

Idea

We propose a revision of federal regulations governing PRIs to make it easier for impact investors to unlock this capital. Specifically, we recommend that the IRS make rulings on whether a proposed PRI can meet the charitable purpose of affiliated foundations, providing necessary clarity for entrepreneurs (similar to a 501(c)(3) nonprofit letter of determination).

Rather than placing the onus on foundations, we propose that the recipient of the PRI seek the determination. This would allow foundations to spend less time on onerous tax paperwork and more time conducting due diligence on which enterprises warrant the investment of a foundation's endowment money. The Philanthropic Facilitation Act, proposed by Representative Cory Gardner (R-CO) and Representative Jared Polis (D-CO) in 2013, would accomplish this by requiring that such rulings be made within 120 days of submission. In an effort to streamline the flow of working capital, we recommend shortening this time to 60 days.

In addition, even without regulatory revision, foundations, impact investors, and social entrepreneurs have the ability to accelerate the use of PRI funds on their own. We urge foundations that have led the way on PRIs (e.g., Ford, Packard, MacArthur) to share their best practices with peer organizations. We encourage entrepreneurs who care about specific issues (e.g., creating manufacturing jobs, developing a skilled workforce, expanding renewable energy) or communities (e.g., Detroit, Omaha) to more aggressively pursue PRI capital to develop investment vehicles that can support entrepreneurs. For instance, the University Venture Fund, a $20 million fund in Salt Lake City, Utah, backed by PRI money and Community Reinvestment Act capital, is one of the most active startup investors in the region, and a model worth emulating (see sidebar on page 22). And we urge all parties to develop and share tools to educate current and aspiring entrepreneurs on how to secure PRI funding.

Impact

» **Entrepreneurs and Young Firms** PRIs offer a wide range of benefits to socially oriented for-profits and nonprofits, including:

- filling gaps in capital left by grants and private donations
- securing capital for projects typically deemed too risky by traditional lenders and investors
- attracting later-stage capital after securing PRI funding for the organization's earlier (and more risky) stage
- building relationships with foundations that can help with funding and/or grants

> acting, in many instances, as low-pressure loans in that if the loans cannot be repaid, they are typically converted to grants by the lending organization

» **Social Impact** PRIs must be used to significantly advance a foundation's charitable purpose. While PRIs used to be allocated primarily for low-cost housing and community development projects, they now cover a broad range of areas such as education, healthcare, and sustainability. Therefore, fully leveraging PRI dollars for these types of ventures will maximize our nation's investment in a variety of public goods, including those that benefit the current and aspiring middle class. According to the Social Impact Investment Taskforce created by the G8 in 2013, if U.S. foundations invested 5% of their portfolios in PRIs, it would "unleash a pool of capital equal to all their mandated annual grant-giving, whilst generating a financial return." And with new metric schemes like IRIS being widely adopted, social impact can be accurately measured.

» **Grant-Making Organizations** Grant-making organizations benefit from distributing PRIs by earning a return on principal rather than making an outright grant. These investments also allow foundations to diversify their portfolios and achieve better alignment with their social missions. In addition, PRI funds help grant-making organizations satisfy the federal tax law requirement of distributing at least 5% of its net investments each year. And the excess business holdings tax and the "jeopardizing investment" standards are not applicable to PRIs.

Catalysts

» **Federal Regulators** The Internal Revenue Service governs regulations regarding program-related investments; therefore, the changes proposed in this section will require action by the IRS.

» **PRI Lenders and Recipients** While regulatory change is important, examples of the effective use of PRI capital abound. Spotlighting the University Venture Fund, Bridges, DBL Investors, and others who have provided, utilized, and deployed these funds successfully will offer evidence to policymakers of the efficacy of these funds, while also offering constructive ideas on how to improve the regulatory scheme in service of impact investing. These examples may also serve to spur a much-needed change in mindset among foundations and entrepreneurs to offer and seek PRI capital. Lenders and recipients must also lead the way in educating other foundations and entrepreneurs on the availability and impact of PRIs.

» **Impact Investment Advocates** Champions of entrepreneurship and small businesses have played an integral role in policy conversations of recent years, most notably with the passage of the Jumpstart Our Business Startups (JOBS) Act. Active support from leaders within the impact investment community (e.g., investors such as the Omidyar Network and Bridges, thought leaders such as Social Finance, and entrepreneur-facing organizations such as Village Capital and the Kauffman Foundation) will be indispensable for progress on this action idea.

IDEA #3:

Build a Regulatory "Roadmap"

Challenge

The current regulatory environment is one of the greatest barriers to growth for entrepreneurial ventures in the United States. According to a study published jointly by the Kauffman Foundation and Rand Corporation, the regulatory burden is carried disproportionately by small and emerging firms. The Small Business Administration has estimated that small businesses pay 36% more in regulatory compliance costs than large businesses. While meaningful efforts have been made to reduce and simplify local, state, and federal compliance requirements, not enough progress has been made towards implementation. Thus, significant—and, for small businesses, costly—challenges remain.

At the root of this challenge is the rise in the sheer number of regulatory requirements. A 2014 report by the National Association of Manufacturers estimated that federal regulations cost the U.S. economy more than $2 trillion in 2012. In the government's effort to account for all possible negative outcomes, regulations have become excessively numerous and onerous. These regulations also result in a significant rise in costs for small business owners, the large majority of whom, as noted earlier in this report, come from the middle class.

Managing compliance can have other detrimental effects on the entrepreneurial landscape. Broadly speaking, overregulation discourages entrepreneurs from launching new companies in the first place. For those who have started companies, a 2013 survey conducted by the National Federation of Independent Business found that 22% of entrepreneurs cite regulation as the single biggest inhibitor to growth, ahead of such common challenges as sales, taxes, and the affordability and availability of insurance. This figure has nearly tripled from 8% just five years earlier.

At the firm level, it should come as no surprise that adherence to regulations translates directly to higher staff costs (as a result of the time and energy employees must devote to managing regulatory compliance), thereby decreasing overall productivity. By devoting limited resources to regulatory compliance, firms become less competitive than their larger domestic peers and international counterparts. On the domestic front, the regulatory environment is steering talent to sectors of least resistance. That diversion of talent has negative ramifications for innovation within those sectors. And as a result, the nation's job-creation capacity is curtailed.

To be sure, complete deregulation is not a realistic goal. But less cumbersome regulation, streamlined to ensure greater timeliness and responsiveness on the part of government, coupled with lower aggregate costs, is essential in encouraging new ventures and nurturing existing ones. Entrepreneurs and bureaucrats necessarily consider risk-taking and time differently. While we cannot completely bridge that gap, it is important to be cognizant of both as we strive for solutions. Unless a more welcome regulatory culture is fostered, the pace of new venture formation and small business growth will continue to be slowed.

Lessons from **History**

The Clinton Administration Takes on Red Tape

On March 3, 1993, just over a month into his presidency, Bill Clinton launched the National Partnership for Reinventing Government, an interagency task force, led by Vice President Al Gore, charged with streamlining government regulation. The mission was to ensure that government "works better, costs less, and gets results Americans care about," and included regular town hall meetings with concerned citizens. Gore also hosted the "Reinventing Government Summit" in June 1993, bringing together business leaders from across the country. In September of that year, the task force released its initial report, entitled *Creating a Government That Works Better and Costs Less*, which spurred the longest-running federal reform effort in the nation's history. The final result was a set of 1,250 specific recommended actions designed to save $108 billion over five years. In the end, federal agencies eliminated 640,000 pages of internal rules, 16,000 pages of regulations, and re-wrote an additional 31,000 pages into sharper language.

AGRIMAX AND THE CHANGING AGRICULTURAL LANDSCAPE

The 2011 Food Safety Modernization Act and the 2014 Agriculture Act have introduced significant increases in regulatory requirements placed on American farmers. The bills give the U.S. Food and Drug Administration the power to shut down farms that are not up to code. Because these rules have existed largely unchanged since the early 1990s, it is imperative that individuals are equipped to understand the new rules. To help ease the transition, Bytech Technologies has created a new cloud-based system known as "Agrimax." The software, which was first introduced in 2012, helps with seasonal planning and scheduling of crops and engenders extensive record keeping. Agrimax also provides farmers with a user-friendly means to avoid regulatory penalties and helps them adjust to the daunting set of new rules.

Idea

We propose the creation of a regulatory "Roadmap" website to help new and emerging businesses navigate the complex and voluminous regulatory landscape. We envision a bottom-up model whereby both users—current and prospective entrepreneurs—and local officials take ownership. While the long-term goal will be to scale the Roadmap nationally, the initial focus will be on launching a pilot project within a select community or group of communities. Ideally, pilots will be conducted in communities of various sizes so that successful practices may be transferred to a broader audience.

The Roadmap will:

- Aggregate all relevant open data on federal, state, and local regulations. This information will be searchable both by locality (via zip codes) and industry to provide targeted information for the user. This feature will build upon the SBA's "Permit Me" online portal. While "Permit Me" is useful in providing baseline information on license and permit prerequisites, the Roadmap aims to tailor such information to the local environment in a more accessible, user-friendly way. It will address regulatory requirements such as:
    - incorporation filing and registration
    - tax regulations (and certificates guidelines)
    - businesses and occupational license information

  - local permitting guidelines and requirements (which might include building, health, occupational, signage, and zoning, among others)
  - employer requirements
- "Translate" regulations into more accessible language for current and prospective entrepreneurs
- Provide updated information on the implementation of regulatory changes (e.g., execution of legislation or executive orders)
- Crowdsource comments from registered users on the efficacy of regulations and the business environment of specific localities. By decrying burdensome regulations and poor performers, the portal will have a "naming and shaming" effect that places pressure on local, state, and federal officials to make improvements. The crowdsourcing feature will also provide an open forum in which a discussion of best practices can take place.

The portal will also help to recognize some of the positive steps Democrats and Republicans have taken to reduce the regulatory burden on emerging firms and help push them towards full implementation. Some recent efforts include Executive Order 13563, Presidential Memoranda on Regulatory Compliance, Executive Order Identifying and Reducing Regulatory Burdens, the House Committee on Small Business' Small Biz Reg Watch, the JOBS Act, the Paperwork Reduction Act (PRA), and the ALERRT Act, among several others.

In a further effort to streamline the process, we envision a tracking tool designed to increase transparency and reduce the red tape often associated with compliance efforts. This tracking tool will give entrepreneurs a sense of expected timing to complete certain regulatory requirements by implementing a "time-to-outcome" (i.e., average time to permit) feature by local jurisdiction (e.g., city, county, and state).

A final potential feature of the platform would be the hosting of a contest or ranking system for "most improved" or "best overall" marks in regulatory environments. In addition to positive exposure for those honored, a financial award might be provided. In both cases, lawmakers have an added incentive to perform. Additionally, we propose the recognition of exemplary regulatory leaders to encourage shorter wait times (e.g., "best city for regulation").

In 2011, President Obama issued a Presidential Memorandum calling for the creation of BusinessUSA.gov, a website to link business owners to all relevant government agencies in one "no wrong door" approach. While the portal has improved significantly since its inception, it is not specifically dedicated to regulation. Instead, it aims to cover the full range of business needs including financing, taxes, counseling and training, and resources for export businesses, among other features. As a result, it fails to adequately address the unique challenges entrepreneurs face in keeping up with regulatory developments at the local and federal levels. Our proposed Roadmap will deal with regulatory issues at both levels in order to assist entrepreneurs in effectively managing that process.

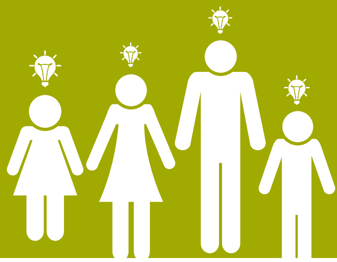
Impact

- **Current and Prospective Entrepreneurs** The primary impact of the Roadmap will be to bring clarity and reduced wait times to entrepreneurs and small business owners. It will also lessen the burden of employer costs associated with regulatory management and compliance by providing a central repository for necessary information that is updated in real time. Finally, such a portal will facilitate a more effective "on ramp" for entrepreneurs who want to start their own businesses.
- **Federal, State, and Municipal Regulators** By increasing access to and understanding of regulation, government agencies should be less burdened by inquiries. This will free up time to devote to more process-oriented tasks. Negative regulatory enforcement should also decrease as a result.
- **Local Governments** Ecosystems that perform well on the tracking of regulatory metrics will be fertile ground for new business and will likely attract more entrepreneurs and corporate investment.

Catalysts

- **Corporate, Public, and/or Private Funder** As a private sector-led initiative, the Roadmap will require funding from corporate, public, and/or private proponents. Ideally, funding should be locally sourced, though other possibilities include the Knight Foundation, the Kauffman Foundation, and the U.S. Chamber of Commerce.
- **Site Architect** Successful models already exist for aggregating information digitally and diffusing it to a wide audience. We recommend that the organization catalyzing this initiative collaborate with industry leaders (e.g., Angie's List, PayPal, Yelp!, Code for America, Legal Zoom) in building this site.
- **Site Manager** Once the site is built, an organization will have to take the lead in aggregating and verifying data, translating regulations, providing real-time information, managing the tracking tool, and other key functions. The site manager will be encouraged to foster strong and collaborative relationships with all relevant regulating agencies. We recommend that a local nonprofit organization with an interest in both bolstering the local economy and reducing the regulatory burden take ownership of the Roadmap.

» **Regulatory Agencies** Input and collaboration with federal, state, and municipal regulators will be essential to maintaining accurate regulatory information and tracking efficiency by jurisdiction.



IDEA #4:

Empower the Next Generation of Entrepreneurs

Challenge

Individuals who have the passion, persistence, and talent to launch and grow new ventures are at the heart of a robust entrepreneurial society. The promise of entrepreneurship as an engine for middle-class job creation, and access to the American Dream is predicated on a broad spectrum of people being empowered to found and join new enterprises. Individuals must have an appreciation of the opportunities before them and the skills required to execute on those opportunities. This applies across the entrepreneurial spectrum, from small family businesses to "gazelles"—high-growth technology ventures. It applies to the founders of new ventures as well as the "joiners"—employees who accept the risk and challenge of working in startups. We need a citizenry aware of the opportunities entrepreneurship provides, the talent to execute on these opportunities, and the inspiration to pursue them in the first place.

Empowering such an entrepreneurial citizenry must start early. People should be exposed to entrepreneurial thinking before they begin their career paths. Individuals who have entered the workforce or even college may make important career choices without full appreciation of whether an entrepreneurial path is possible. The primary and secondary levels (K-12) are fertile ground to inspire entrepreneurial thinking and to empower students as they move out into the world. Educational efforts aimed at this cohort should help remove the mysticism surrounding entrepreneurship; highlighting that entrepreneurs are "made, not born;" that they come in many shapes and sizes, from diverse backgrounds, and skill sets; and that every individual has the potential to be an entrepreneur.

The notion of entrepreneurial education at the K-12 level is not new. Various schools and organizations have experimented with such programs. But these experiments have not been scaled across a wide array of K-12 institutions. Individual efforts by teachers or schools often lack resources and a common pool of knowledge from which to build more substantial programs and sustained efforts. There have not been robust mechanisms to learn from both educational experiments that have succeeded and those that have failed. Finally, successful efforts have not achieved national prominence and recognition that might inspire other schools to imitate them.

Idea

We propose the creation of an annual national entrepreneurship competition aimed at the K-12 level. The competition would encourage teams of students to propose and pitch a new venture. Emphasis would be placed on the development and "de-risking" of a venture concept rather than the creation of a formal business plan. Student teams would be encouraged to build prototypes and test hypotheses related to their venture concept, even potentially bringing a product or service to market. Projects would address real-time market demands. They could be structured as either a for-profit or nonprofit organization. For instance, one

Lessons from **History**

FIRST Robotics Competition

In 1989, entrepreneur Dean Kamen founded FIRST (For Inspiration and Recognition of Science and Technology) to "inspire young people's interest and participation in science and technology." The organization's flagship program is an annual international robotics competition for high school students. Teams of 25 students or more—guided by a volunteer professional mentor—are asked to raise funds, design a team brand, and build and program robots to perform prescribed tasks that change from year to year. The goal is to simulate an experience as close to "real-world engineering" as possible. Students may qualify for over $19 million in college scholarships while learning from industry professionals in a competitive and fun environment. Since it's inception in 1989, FIRST has built up a list of 180 corporate partners to work together on funding and administering the program. Like this report's proposed entrepreneurship competition, the FIRST Robotics Competition exposes students to engineering in a way that provides valuable insights into related professions while presenting the field as an enjoyable and accessible pursuit.

TRAINING PROGRAMMERS, ONE HOUR AT A TIME

The nonprofit Code.org launched in 2013 with the mission to increase participation in computer science nationwide. At its core, the organization wants to ensure that "every student in every school" has access to computer science and programming. They believe that there is considerable merit to having these fields be part of core curricula everywhere. One chief delivery mechanism is the "Hour of Code." The program asks students—from kindergarten to 12th grade—to code for a single hour. The idea is that, given the chance, individuals will see that computer programming is an attainable and enjoyable pursuit. Students are asked to give just 60 minutes of their time. In return they receive a source of inspiration for a future career in a field many have not considered or have believed to be out of reach. Numerous public figures, including Bill Gates and Mark Zuckerberg as well as President Obama, have come out in support. To date, more than 40 million people have participated nationwide.

possibility is to have a design challenge where students are given a specific market or social need that they are to develop venture concepts to address.

Teams would be organized by grade level (e.g., 4th to 6th grade, 7th to 9th grade, 10th to 12th grade). The teams would require school sponsorship and the identification of a team mentor, most likely a teacher at the school. The range of public and private educational institutions—including charter, magnet, independent, parochial, and proprietary schools—would be encouraged to participate. And healthy competitions between schools would be fostered. To that end, we envision a network of locally based competitions that roll up to the state or regional level. Winners would then move on to a national competition similar to the FIRST Robotics Competition (see sidebar on page 33) or the White House Science Fair.

We imagine that supporting the teams will be a series of school-based educational engagements that provide the knowledge and skills needed to develop venture concepts. While these may take the form of courses, we suspect that most schools will treat these as extracurricular activities similar to debate clubs or Model UN. While each school would have discretion on how to approach these education engagements, robust entrepreneurship curricula and materials should be developed and made available through the national competition organization to support local teams. We imagine leveraging advances in online education to create rich, easily accessible videos and materials. Partnering with universities may also be a powerful way to develop such materials.

While standard materials will be made available, experimentation would be encouraged at local schools as well. The national organization managing the competition could be a clearinghouse for novel, successful approaches implemented at the local level, creating both a "top-down" and "bottom-up" approach to developing educational materials for team mentors to utilize.

One particular educational experience that is worth exploring is the idea of a signature school event, similar to the "Hour of Code" (see sidebar on page 34). This would highlight the importance of entrepreneurship and generate a network to organize follow-up team-building efforts. It could be executed as a coordinated effort at the national level (e.g., a national Hour of Entrepreneurship). It may also serve as a funnel to expose a wide group of students to entrepreneurial thinking, more than just those who may be interested in putting in the time to be part of a venture team. This could also be a vehicle for engaging younger students (e.g., K-3rd grade) who may not be ready for the national competition.

We recognize that laudable work is already being done in entrepreneurship education. The Small Business Administration (SBA), EntreSkills, the Network for Teaching Entrepreneurship, and many others are building a vast collection of curricular materials. Other organizations are providing awards or host events. For instance, the National Federation of Independent Business' (NFIB) Young Entrepreneur Foundation provides scholarships to those with demonstrated success. And the Consortium for Entrepreneurship Education runs "National Entrepreneurship Week." However, we believe that our proposal fills a remaining gap in the market. It would create new entrepreneurs, not just recognize existing ones. Much of its activity would take place outside of the classroom. And the use of a competitive structure might attract more apathetic students while providing incentives to maximize results across the board.

Impact

» **Students** Participating students will gain direct exposure to the entrepreneurial process and receive rich educational opportunities. They will learn how to work in teams, craft a proposal, and speak in public. For those teams that make it to the national competition, winning such a prestigious competition could be a wonderful signal as students look toward college and beyond. The competition could serve as a way to identify students with high entrepreneurial potential. These students could then become eligible for follow-up opportunities that would allow them to further pursue their entrepreneurial dreams. Some of the concepts may even attract interest from venture capitalists and established entrepreneurs.

More broadly, a new generation of students will have early exposure to the power of entrepreneurship. By providing a hands-on experience envisioning and starting a business, it will help to demystify the entrepreneurial process. Doing so will hopefully inspire and empower more individuals to pursue entrepreneurship, and perhaps even lead today's students to view this as a "cool" career path.

- **Participating Schools** The competition provides an opportunity for participating schools to enrich their offerings and to engage students. We hope and suspect that once exposed to the power of entrepreneurship, students will be motivated to raise their diligence with their traditional coursework. Science, technology, engineering, and math (STEM) disciplines could be seen as vehicles to the innovation of the next great product or service that positively impacts the world. Studying the humanities could be part of a broader desire to be creative and innovative. Students with a vision of their future are far more likely to place emphasis on learning the skills and knowledge necessary to pursue that vision, thus positively impacting the participating schools' educational efficacy.
- **Public** A national entrepreneurship competition could generate substantial public attention and help expose entrepreneurial thinking to students at the K-12 level and beyond. We envision a program equal in prominence to the Siemens Westinghouse Competition on math, science, and technology. Given the success of *Shark Tank* and similar shows, the national final might even be televised, further increasing its exposure and impact. This could help raise entrepreneurship in the consciousness of all Americans and empower more individuals to found or join new ventures.

Catalysts

- **Federal, State, and Local Entities** The empowerment of the next generation of entrepreneurial leaders in the U.S. will require a coordinated effort among federal, state and local entities from both the public and private sector. We recommend that the national entrepreneurship competition be sponsored by a public-private partnership between the U.S. Department of Education, the U.S. Department of Commerce, public school systems, and various private foundations and corporations.
- **Educational Foundations** Engagement with the top foundations and nonprofits focused on K-12 education would be a good place to start to pull together the public-private partnership and work on the development of accompanying curricula.
- **Corporations** Funding from corporations is a promising possibility. We propose approaching corporate foundations to be an anchor sponsor. Secured funding could be used to create an independent nonprofit organization that operates the competition nationally and to hire a team to lead the effort at all levels.

» **Entrepreneurial Community** The national competition will roll up from regional and local competitions sponsored by state governments, regional authorities, and ultimately individual school districts. The engagement of the entire entrepreneurial community—comprised of individual leaders, participating schools, and state and local development authorities—will be critical to bringing the competition to fruition. A formal engagement process will need to be devised to roll the competition out. Colleges and universities may be promising partners in such an effort since many now have entrepreneurship programs that could be resources for reaching school districts in their local areas.

IDEA #5:

Entrepreneurial Ecosystems-in-a-Box

Challenge

"Entrepreneurial clusters"—which we define as geographic areas with intellectual, financial, network, and human capital for entrepreneurs—are notable for their robust growth and resilience to economic turbulence. Well-known regions, including Silicon Valley, Boston's Route 128 tech corridor, and North Carolina's Research Triangle, all highlight the power of entrepreneurial ecosystems to advance the economic well being of entrepreneurs and employees alike.

Business leaders and regional policymakers across the country continuously experiment with creating metropolitan-sized environments suitable for entrepreneurs to scale their small companies into large employers. The regional benefits of these efforts, when successful, are impressive. However, research shows that a staggeringly wide array of factors contribute to a region's sustained economic prosperity, including concentrations of capital, developed physical infrastructure, a capable workforce, proximity to other clusters, amenable legal and regulatory schemes, fast access to markets, the presence of knowledge networks, and local residents' willingness to reinvest locally, among numerous other factors. All of these feed the virtuous cycle of startup growth that helps regions thrive.

Thus, the question often asked by civic leaders is: How do you build a vibrant entrepreneurial ecosystem? While aspiring to be the "next Silicon Valley" is an admirable goal, many regions are better suited to focus beyond the tech-centric models that dominate the financial pages. The halo effect that these well known success stories project often leads other aspiring regions to place big bets on high-profile efforts. But each city has its own environmental peculiarities and local competitive strengths. Trying to replicate stories that have been successful in different contexts often fails to meet expectations. As a consequence, regional leaders chase potentially competing goals that can result in sub-optimal strategies that overlook the energy of nascent ecosystems.

Idea

To meet this challenge, we propose an "Entrepreneurial Ecosystem-in-a-Box" (EEB)—a plug-and-play toolkit for civic leaders across the country looking to create local entrepreneurial clusters. We envision the EEB as a collection of best practices and actionable initiatives that focuses community leaders' energies and expertise on activities that have a high probability of generating lasting benefits. Special attention will be paid to providing a detailed playbook for policymakers looking to build robust entrepreneurial ecosystems in their communities.

We envision the toolkit to contain a collection of learning modules and actions items. Civic leaders would have the option of selecting the materials they believe would be most impactful within their individual communities. For instance, the toolkit could include a series of easily accessible, one-page summaries on the following topics:

Lessons from **History**

Wichita and Its Ascension to the Air Capital of the World

During World War I, the U.S. government invested heavily in the nascent aviation industry, though most of this was directed toward military aircraft and, later, airmail. Flush with profits from the discovery of oil in Wichita in 1914 and 1915, businessman J.M. Moellendick set out to exploit this market opportunity and turn air travel into a profitable commercial enterprise. He hired pilot and builder Matty Laird, who in 1920 created what he called "America's First Commercial Airplane," the Laird Swallow. Inventors and entrepreneurs began flocking to Wichita, which soon became known as the "Air Capital of the World." At the root of Wichita's aviation dominance was a vibrant ecosystem, which supported the industry's growth and continues to do so today. More than 200 precision machine workshops compete for subcontracting work. NASA, the FAA, and postsecondary education drive new ideas via the National Institute for Aviation Research. And nearby universities and technical colleges have altered curricula while also founding the National Center for Aviation Training in support. The resulting outcomes are astounding. A city with a population of 400,000 has produced more planes than any other on earth.

THE IDEA VILLAGE AND NEW ORLEANS'S ENTREPRENEURIAL RENAISSANCE

The Idea Village, a nonprofit formed in 2002, emerged as a reaction to New Orleans's systemic decline as a thriving city. The founding members, who were all entrepreneurs, agreed to fund a business plan competition as a way to catalyze other aspiring entrepreneurs. This small initiative snowballed when local business leaders embraced the idea and contributed generously to the grand prize. The competition connected those with energizing ideas and established leaders who could help pave the path towards growth. The newly generated network supported by The Idea Village developed New Orleans's signature ecosystem development event: the Entrepreneur Season. The Entrepreneur Season is a nine-month program "that engages a collaborative network of partners, including government, universities, corporations, nonprofits, and individuals, to identify, support, and retain New Orleans-based startup ventures by providing educational services, strategic consulting and capital."

- Learning how to assess ecosystem assets, weaknesses, and opportunities
- Bolstering a regional culture that celebrates entrepreneurial activities
- Encouraging individuals to think entrepreneurially and to pursue smart risk-taking
- Engaging large businesses based in the city to help startups via investment, mentoring, and purchases
- Working with universities to simplify technology transfer and encourage startup cultures
- Leading physical infrastructure projects that support ecosystem development
- Fostering connections between intellectual capital and venture management capabilities
- Using crowdfunding as a way to build one's ecosystem
- Attracting small companies from less supportive regions
- Encouraging relationships between capital and entrepreneurial opportunity
- Fostering awareness of the startup community among the local labor pool to grow small business employment
- Creating R&D commercialization hubs to bridge the gap between research and bringing products to market

These briefs would contain links to additional research and case studies explaining how other growing ecosystems have addressed these issues. For example, Cincinnati has teamed up with many local and national foundations to turn older homes into affordable places to live and work. Innovators in New Orleans have seized the opportunity to develop educational technologies noting that the city's many charter schools have high levels of discretionary funds for creating new ways to improve the teaching and learning experience. And Louisville has joined forces with Village Capital, a globally active seed fund, to develop an accelerator program that has provided small companies in agribusiness with resources to become robust employers.

The first step in building the EEB will be to research and catalogue the many ways that communities across the country have bolstered their ecosystems' growth. This effort will include collecting data from both successful and unsuccessful initiatives and analyzing the factors that drove success. Special emphasis will be placed on understanding the conditions under which various initiatives are successful, recognizing the important differences derived from regional contexts.

This research will serve as the backbone for an online portal that civic leaders can use to train themselves and their colleagues about high-impact initiatives they could lead. Laying a firm foundation in empirical evidence will substantially improve quality relative to other publications based on more spurious inferences and hopeful extrapolation. The portal will provide a continuously updated online compendium of best practices rooted in ongoing research and experiences in expanding entrepreneurial clusters. In addition, thought leadership from organizations such as UP Global, whose September 2014 white paper, "Fostering a Startup and Innovation Ecosystem," highlighted a set of common ingredients in thriving startup communities, will be included. Because the proposed project will be a living, breathing resource based on the latest research, it will stand out from the many other static publications that provide ecosystem advice.

Ultimately, we believe this project will help connect civic leaders from across the country and multiply our collective knowledge about how to strengthen the entrepreneurial spirit that is crucial for the nation's continued prosperity. To this end, we propose, in addition to the resources noted above, that an annual national summit be convened to bring together mayors, legislators, civic leaders, and entrepreneurs to discuss their respective experiences, to share best practices, and to learn about the latest research. In this way, the EEB project will encourage the building of a national network of doers and experimenters. By pooling collective knowledge, we can greatly enhance the efficacy of entrepreneurial ecosystem-building efforts by public officials, civic leaders, and entrepreneurs.

Impact

The EEB toolkit will help community leaders learn how to encourage the development of diverse initiatives that continuously spur entrepreneurial activities. The EEB provides communities with measurable activities for building foundational networks of resources and talent upon which small companies can emerge and, most crucially, grow. The benefits of such efforts impact many community stakeholders:

- **Communities** Healthy entrepreneurial ecosystems have a wide range of impacts that extend beyond the entrepreneurs themselves. Communities that host growing ecosystems benefit not only through economic growth, but also from the thick networks of collaborators that can attract and deploy new resources. As regional networks grow, its members' needs would increasingly be met at the local level, giving them greater ability to remain active in their local communities.
- **Entrepreneurs** Entrepreneurs who contribute to the virtuous cycle are the most important output in a thriving entrepreneurial ecosystem. Leaders catalyze ecosystem expansion when they provide entrepreneurs with multiple venues to engage with one another. Entrepreneurs who are continuously supported by their community will have greater reason to stay and reinvest locally. One example is Atlanta's David Cummings, who sold his company, Pardot, for $100 million and used a significant portion of what he made to build the Atlanta Tech Village, a co-working and event space for startups.
- **Students and Workers** Many entrepreneurial efforts start out as "side-gigs" that individuals take on in addition to existing commitments. Vibrant ecosystems emerge when enough nascent entrepreneurs get serious about trying to make their ventures successful. Could-be entrepreneurs, who are often hesitant to take the full plunge, can gain confidence from interacting with or working for knowledgeable people with experience via the mentoring activities at the high school and college levels noted above. The nationwide effort, Venture for America, which provides opportunities for recent college graduates to take roles in startup ventures, offers a strong model for this type of activity. And several networks of "accelerators" across the U.S.—HealthBox, TechStars, and Village Capital—have entrepreneurs and mentors in multiple cities across the U.S. The confidence ascertained should help them better perceive risk and become less averse to launching new ventures themselves.

Catalysts

The success of the EEB will ultimately depend on the credibility of the entity leading the effort. A partnership between a number of well recognized and respected stakeholders will be critical to execution:

- **Nationally Acclaimed Research Institution** The research required to develop a robust toolkit that stands firmly on empirical evidence and not solely on anecdotal intuition will need to originate from a capable research institution. This institution will also need the capacity to distribute the EEB toolkit to community leaders and offer training opportunities to improve leaders' probability for success. This activity will need to be funded through public or private grants.
- **Local Government** Local public officials will need to work with the research institution to source the important data and develop workable tools to implement the recommendations contained in the toolkit.
- **Civic and Business Leaders** Local networks of influential people are crucial for continually supporting entrepreneurial ecosystems. They can be important actors throughout the toolkit's development as well as its deployment. Their involvement will improve the toolkit's quality and provide a platform for its acceptance as a best practice. Ecosystems will need infusions of various resources and energy that both public and private sector leaders can corral through their networks. (See the sidebar on page 40 for an example of how civic leaders in New Orleans have helped create an entrepreneurial ecosystem.)
- **Foundations and Other Potential Sources of Risk Capital** Very often, entrepreneurial ventures have a high degree of uncertainty and risk, and require capital providers with risk tolerance. Foundations, either through grants to ecosystem-supporting efforts or direct investments (see Idea #2 on program-related investments) in companies, can play a leading role.

Commission Members

Co-Chairs

» Steve Case

Chairman and CEO, Revolution LLC; Co-Founder, America Online

Steve Case is one of America's best-known and most accomplished entrepreneurs, and a pioneer in making the Internet part of everyday life. As chairman and CEO of Revolution LLC, a Washington, DC-based investment firm he co-founded in 2005, he partners with visionary entrepreneurs to build significant "built to last" new businesses. Case's entrepreneurial career began in 1985 when he co-founded America Online (AOL). He was the founding chair of the Startup America Partnership and chair of its successor initiative, UP Global. He is also a Presidential Ambassador for Global Entrepreneurship and was a member of President Obama's Council on Jobs and Competitiveness where he chaired the subcommittee on entrepreneurship. He is chairman of the Case Foundation, which he established with his wife Jean in 1997.

» Carly Fiorina

President, Carly Fiorina Enterprises; former Chairman and CEO, Hewlett-Packard

Carly Fiorina is president of Carly Fiorina Enterprises and board chair of Good360, the world's largest product philanthropy organization. She is also founder of the One Woman Initiative, a public-private partnership focused on providing access to justice, leadership training, and tools to enable women to assume local entrepreneurial or leadership roles in countries around the world, and serves as a global ambassador for Opportunity International, a Christian-based organization that lifts millions out of poverty through micro-finance. From 1999 to 2005, Fiorina served as chairman and CEO of Hewlett-Packard, becoming the first woman to lead a Fortune 20 company. She also serves as a senior advisor for the Center for Strategic and International Studies, chairman of the American Conservative Union Foundation, and co-chair for U.S. Leadership in Development.

Commissioners

» Ross Baird

Executive Director, Village Capital

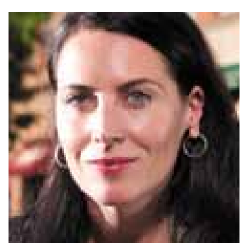
Ross Baird is executive director of Village Capital, a company drawing on the power of peer support to build enterprises by bringing together entrepreneurs from similar communities to establish cohorts with shared experience and peer-driven mentorship. Baird developed the concept for Village Capital in 2009 and has led the development of programs worldwide. He previously worked with First Light Ventures, a seed fund focused on impact investments. Prior to that, he was instrumental in the development of four education-related startup ventures.

» Aaron Chatterji

Associate Professor, Fuqua School of Business, Duke University

Aaron Chatterji is an associate professor at Duke University's Fuqua School of Business, focusing on the most important forces shaping our global economy and society: entrepreneurship, innovation, and the expanding social mission of business. Chatterji previously served as a senior economist at the White House Council of Economic Advisors, working on policies relating to entrepreneurship, innovation, infrastructure, and economic growth. He received the Rising Star Award from the Aspen Institute for his work on business and public policy.

» Amy Cosper



Vice President and Editor-in-Chief, Entrepreneur

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» James Douglas

Former Governor of Vermont

James Douglas served as governor of Vermont from 2002 to 2011. Douglas' political career included positions as Vermont's state representative from 1972 to 1979, its secretary of state from 1980 to 1993, and state treasurer from 1993 until his inauguration as governor. He has served as chair of the National Governors Association, the New England Governors' Conference, and the Coalition of Northeastern Governors. Douglas has also served as president of the Council of State Governments and National Association of State Treasurers.

» Maya MacGuineas

President, Committee for a Responsible Federal Budget

Maya MacGuineas is president of the Committee for a Responsible Federal Budget. She previously served on the *Washington Post* editorial board covering economic and fiscal policy, and has worked at the Brookings Institution and on Wall Street. MacGuineas regularly testifies before Congress, has published articles in *The Atlantic*, the *Washington Post*, the *New York Times*, the *Financial Times* and the *Los Angeles Times*, and provided commentary on broadcast news.

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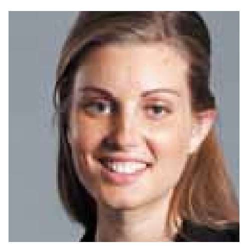


Founder & CEO, Kickboard

Jennifer Medbery is founder and CEO of Kickboard by Drop the Chalk, an intuitive software platform that offers tailored coaching services to better equip educators. Medbury received her degree in computer science from Columbia University, and used her computer programming skills to develop Kickboard, a way to make better instructional decisions based on data that showed which skills students knew, which they had yet to master, and how student behavior impacted academic achievement. It is now used by schools in 12 states.

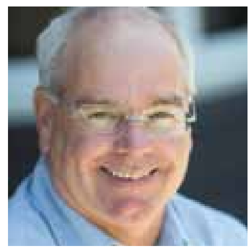
» Brian Meece

CEO, RocketHub

Brian Meece is the CEO of RocketHub, one of the world's top crowdfunding platforms. RocketHub is an international, pioneering, open community that has helped thousands of artists, scientists, entrepreneurs, and social leaders raise millions of dollars, and Meece works to teach creative entrepreneurs how to leverage the crowd for funding their endeavors. He has lectured on crowdsourced funding at South by Southwest, TEDxBrooklyn, Columbia University, and Makers Faire, as well as other colleges, conferences, and institutions.

» Lenny Mendonca

Entrepreneur and Director Emeritus, McKinsey & Company



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Lead Scholars

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» Sean Carr

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